

Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 SP-02 AID-05 EB-07 NSC-05 CIEP-01

TRSE-00 SS-15 STR-04 OMB-01 CEA-01 CIAE-00 COME-00

FRB-03 INR-07 NSAE-00 USIA-06 XMB-02 OPIC-03 LAB-04

SIL-01 L-03 H-02 PA-01 PRS-01 /087 W

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R 251147Z JUL 75

FM AMEMBASSY BONN

TO SECSTATE WASHDC 1691

INFO AMEMBASSY LONDON

AMEMBASSY PARIS

AMEMBASSY ROME

USMISSION OECD PARIS

USMISSION EC BRUSSELS

C O N F I D E N T I A L SECTION 01 OF 02 BONN 12011

DEPARTMENT PASS TREASURY AND FRB

E.O. 11652: GDS

TAGS: EFIN, GW

SUBJECT: BUNDES BANK VIEWS ON DOMESTIC AND INTERNATIONAL
MONETARY QUESTIONS.

1. SUMMARY. THE BUNDES BANK IS BEGINNING TO SHOW SOME
CONCERN REGARDING THE INFLATIONARY AND TERMS OF TRADE
EFFECT OF A DEPRECIATION OF THE DM. IT BELIEVES THAT
THE DOMESTIC ECONOMY IS NOW PASSING THROUGH THE BOTTOM
OF THE RECESSION AND IS DETERMINED TO RESIST RISES IN
BOND INTEREST RATES. THE BUNDES BANK IS RELAXED
REGARDING INTERNATIONAL MONETARY REFORM. IT BELIEVES
THAT WHILE GOLD, IMF QUOTAS, AND THE FUTURE IMF EXCHANGE
RATE REGIME ARE ALL RIPE FOR DECISION, THE PRACTICAL
IMPORTANCE OF REACHING (OR NOT REACHING) AGREEMENT THIS
FALL IS LIMITED. END SUMMARY.

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2. IN COMMENTING ON - AND GENERALLY WELCOMING - THE

CURRENT STRENGTH OF THE DOLLAR ALL BOARD MEMBERS (EMMINGER, TUENGELER, IRMLER) TO WHOM THE FINANCIAL ATTACHE TALKED ON A RECENT VISIT TO THE BUNDES BANK WENT OUT OF THEIR WAY TO INDICATE THAT THE BUNDES BANK WAS NOT INTERESTED IN PUSHING THE DM DOWN FOR EXPORT AND DOMESTIC ECONOMIC POLICY REASONS. ON THE CONTRARY, THEY SEEMED TO BE MORE CONCERNED WITH THE TERMS OF TRADE AND DOMESTIC INFLATIONARY EFFECT OF A DEPRECIATING DM AND INDICATED THAT A DESIRE NOT TO PUT FURTHER PRESSURE ON THE DM WAS ONE OF THE MAIN REASONS WHY AT ITS LAST MEETING THE CENTRAL BANK COUNCIL HAD NOT AGAIN LOWERED THE REDISCOUNT RATE.

3. BUNDES BANK VICE PRESIDENT EMMINGER SAID THAT HE EXPECTED GERMAN GNP DURING THE SECOND HALF OF 1975 TO GROW BY ABOUT 3 PERCENT OVER THE FIRST HALF (IN REAL TERMS ON A SEASONAL ADJUSTED BASIS) WITH EXPORTS HOLDING STEADY AND DOMESTIC CONSUMPTION (BUT NOT YET INVESTMENT) PICKING UP. OTHERS AT THE BUNDES BANK ALSO THOUGHT THAT THE FRG WAS NOW AT THE BOTTOM OF THE RECESSION WITH A GRADUAL RECOVERY ABOUT TO START. IN THIS SITUATION THE BUNDES BANK IS DETERMINED TO CONTINUE TO RESIST THE RISE IN BOND MARKET INTEREST RATES.
COMMENT: SINCE THE BEGINNING OF JULY THE BUNDES BANK HAS REPORTEDLY PURCHASED ABOUT DM 1.5 BILLION OF PUBLIC BONDS (I.E., 2.4 PERCENT OF THE TOTAL OUTSTANDING) IN OPEN MARKET OPERATIONS TO PREVENT A FALL IN THEIR PRICE.)

4. WHILE FINAL STATISTICS ARE NOT YET OUT, ORDERS TO INDUSTRY APPARENTLY TOOK A HUGE JUMP AT THE END OF JUNE AS FIRMS RUSHED TO TAKE ADVANTAGE OF THE EXPIRING INVESTMENT TAX CREDIT. BUT NO ONE KNOWS QUITE HOW TO INTERPRET THIS ORDER DATA SINCE A GOOD PART OF THE ORDERS MAY HAVE BEEN PRECAUTIONARY ONES TO ASSURE THE TAX CREDIT AND SUBJECT TO CANCELLATION IN THE FALL IF ECONOMIC CONDITIONS THEN DON'T SEEM TO WARRANT THE INVESTMENT.

5. CONCERNING INTERNATIONAL MONETARY REFORM, EMMINGER
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SAID THAT IN HIS VIEW THE QUESTION OF GOLD, IMF QUOTAS AND THE EXCHANGE RATE REGIME WERE ALL CLEARLY RIPE FOR DECISIONS. ONLY THEOLOGICAL DISPUTES BETWEEN THE U.S. AND FRANCE WERE HOLDING THINGS UP, BUT IF THE MONETARY SUMMIT PROPOSED BY Giscard WAS AGREED THERE OBVIOUSLY WOULD NOT BE ANY AGREEMENTS AT THE PRIOR INTERIM COMMITTEE MEETING THIS FALL. WHILE NOT ATTACHING ANY PRACTICAL IMPORTANCE TO HOW THE EXCHANGE RATE QUESTION

WAS RESOLVED IN THE IMF ARTICLES (IN THE SENSE THAT THIS WOULD NOT AFFECT WHAT COUNTRIES IN FACT WOULD DO), EMMINGER MARVELED AT THE WAY IN WHICH GISCARD WAS BUILDING UP A POSITION ON FIXED EXCHANGE RATES WHICH EVEN THOUGH IT WAS NOT WORKABLE IN PRACTICE OR EVEN IN FRANCE'S OWN LONG RANGE INTEREST, WOULD GIVE GISCARD A BARGAINING CHIP SIMILAR TO THAT PROVIDED BY THE FRENCH POSITION ON GOLD FOR WHICH OTHERS WOULD HAVE TO PAY A

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PRICE TO NEGOTIATE FRANCE AWAY FROM IN THE FUTURE. IN THIS SENSE EVEN PURELY VERBAL CONCESSIONS (REGARDING "ULTIMATE AIMS", ETC.) TO THE FRENCH VIEW ASSUMED A LIMITED IMPORTANCE.

6. CONCERNING U.S. BANKS IN THE FRG, TUENGLER EXPRESSED CONSIDERABLE IRRITATION REGARDING SOME OF THEIR CURRENT

OPERATION IN THE CONSUMER CREDIT FIELD WHERE HE SAID
SOME OF THE U.S. OWNED BANKS THROUGH MODERN MARKETING
METHODS ARE SELLING CREDIT AT UNFAIRLY HIGH RATES TO
SMALL GERMAN CUSTOMERS.

7. MOST PRIVATE BANKERS TO WHOM THE FINANCIAL ATTACHE
TALKED THOUGHT THAT THE DOLLAR WOULD REMAIN STABLE OR
STRONG FOR THE TIME BEING, WOULD MEET INCREASING
RESISTANCE POINTS IF IT ROSE TO \$1.00 EQUALS DM 2.55.
ALMOST EVERYONE ATTRIBUTED THE DOLLARS STRENGTH MAINLY
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TO HIGH INTEREST RATES REINFORCED BY GOOD TRADE FIGURES,
RUSSIAN DOLLAR PURCHASES, U.S. ECONOMIC RECOVERY AND
THE SNOWBALL EFFECT OF A RISING RATE. PRIVATE BANKERS
GENERALLY THOUGHT THAT THE FRENCH FRANK HAD NO CHANCE
OF STAYING WITHIN THE EC SNAKE AT ITS PRESENT PARITY
AND WAS BEING HELD THERE FOR THE TIME BEING ONLY BY THE
VERY HIGH FRENCH INTEREST RATE.

8. AFTER THE VERY HEAVY (DM 6 BILLION) FLOATATION OF
FOREIGN DM BONDS DURING THE FIRST HALF OF 1975, PRIVATE
BANKERS GENERALLY EXPECTED A MUCH LOWER VOLUME
(POSSIBLY DM 2 - 3 BILLION) DURING THE REMAINDER OF THE
YEAR.

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